

Economics and Sociology
Occasional Paper No. 11

Impact of Unemployment Insurance
on Agriculture

By
Bernard L. Erven
Agricultural Economist

August 3, 1970

Department of Agricultural Economics and Rural Sociology
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210

IMPACT OF UNEMPLOYMENT INSURANCE ON AGRICULTURE*

By

Bernard L. Erven

The Ohio State University

New legislation affecting hired farm labor will be one of the likely impacts of the industrialization of the hired farm work force. An important legislative change being given serious consideration is extension of unemployment insurance to agriculture. More than 58 million employees in the United States are covered by unemployment insurance, but practically none of the 2.6 million persons in the hired farm working force are covered.

Unemployment insurance is a widely accepted social insurance program. The intent is to compensate workers for part of the earnings loss resulting from involuntary unemployment. Weekly benefits are paid to eligible workers according to benefit schedules stipulated by law. Benefit payments are related to previous earnings and in some states, number of dependents. Employers contribute to a state unemployment insurance fund on behalf of workers.

It is highly probable that agriculture will soon have some form of unemployment insurance coverage for hired farm workers. There is a widespread support for extending the coverage to workers now excluded. However, agricultural employers are generally opposed to the broader coverage. Many arguments have been used in defense of excluding agriculture. Two major ones remain. The first is that the expected high ratio of benefits to taxable payroll would necessitate relatively high tax rates for agricultural employers. Even with the high rates, agricultural employers might well contribute less to the state funds than would be paid in benefits. This would require a subsidization from non-agricultural employers. However, some people point to evidence indicating that the benefit cost rates for agriculture would be no higher than those of several groups already covered. The second objection raised by opponents to agricultural coverage is that there would be serious administrative problems.

*A paper prepared as a basis for discussion in conjunction with the topic "The Changing Problems of the Agricultural Work Force," American Agricultural Economics Association Annual Meeting, Columbia, Missouri, August 11, 1970.

These would be due primarily to the seasonal nature of agricultural employment and extensive use of migrant labor. The counter argument used is that some non-agricultural seasonal employers are already covered with no serious administrative problems.

Proposed Legislation

The 91st Congress has given serious consideration to extending unemployment insurance to some hired farm workers. The administration proposal was to include 30 percent of the farm workers and 5 percent of the farms using hired labor. The coverage would have included all farms that employ four or more workers for at least 20 weeks of a 52 week period. This proposal failed in the House but the Senate approved a less extensive coverage which would have included 10 percent of the hired working force and 2 percent of the farms with hired labor. The Senate version would have covered farms that had eight or more workers for at least 26 weeks of a 52 week period. The agricultural coverage was defeated in Conference Committee. However, it is almost certain that Congress will reconsider unemployment insurance for agriculture in the near future. Thus, we need to be looking at likely impacts on employers and workers of such an extension. The remainder of this paper is concerned with some of these impacts. The related question of how unemployment insurance can best be extended to agriculture is very important but beyond the scope of this paper.

Impact on Employers

There would be considerable variation in the impact of unemployment insurance on employers. Many employers would continue to be excluded. The recent proposals would have covered five percent or less of the agricultural employers. Even if coverage in agriculture starts with few employers, it would probably eventually be extended to additional employers as has happened with non-agricultural employers.

Several likely consequences of unemployment insurance for covered employers can be identified.

(1) Unemployment insurance would increase the covered employers cost of production through increased labor costs. Uncertainty concerning what the employer contributions would be has been a major factor in maintaining the agricultural exclusion. An employer's per worker contribution to the unemployment insurance fund would depend on: (1) the state unemployment insurance tax rate, (2) the taxable wage base and (3) the benefits

paid the former employees of the particular employer in question. The estimated average 1969 State contribution rate for all covered employers in the United States was 0.7 percent of total payroll. The taxable wage base in most states is the first \$3,000 paid a worker by each employer. Benefit cost rates (benefits paid as a percent of taxable wages) have been estimated for five states. These estimated benefit cost rates for agriculture are 1.5 in Connecticut, 1.6 in Nebraska, 3.3 in New York, 3.8 in Arizona and 9.5 in California. North Dakota has had a voluntary program for agriculture since 1960. The benefit cost rate there for the first nine years was 12.8.

The competitive position of covered employers relative to non-covered employers would be negatively influenced. Additionally, the relative competitive position of covered employers would be influenced by state variations in programs. California employers, for example, have expressed concern that a state unemployment insurance program for agriculture limited to California would increase their costs of production relative to their competitors in states without the coverage. Even with a Federal standard, individual states are likely to go beyond the Federal minimums, thus influencing the relative competitive position of their employers. For example, there is considerable state variation in tax rates.

(2) The increased cost of labor would result in reduced employment. There would be increased substitution of capital for labor. The number of employers would decrease. However, increased productivity of better quality labor would be an offsetting factor to the increased per unit cost of labor.

Employers might also reduce the amount of hired labor through off season layoffs. Traditionally, agricultural employers have maintained their regular employees on a 12 month payroll even though there may be little or no work for two or three months of the year. With unemployment insurance, they could have a two or three month layoff as is commonly done in the construction industry.

(3) Unemployment insurance should make agricultural employment more attractive. This is especially true for those with non-agricultural employment alternatives and/or those considering seasonal agricultural employment. The net effect should be reduced recruitment problems and a higher quality worker in agriculture.

Impact on Employees

Unemployment insurance would further reduce the distinction between agricultural and non-agricultural employment, thereby raising the status of agricultural employment. Benefits paid unemployed agricultural workers would reduce their dependency on welfare and other forms of relief. Any worker that had covered agricultural employment to complement non-agricultural employment would more likely qualify for benefits. A worker may not have had sufficient covered non-agricultural employment to qualify for benefits but be able to qualify through some additional covered employment in agriculture. Benefit qualification would no longer depend on non-agricultural employment.

There may be some reduced employee incentive to work because of the unemployment benefits. However, this should not be a serious problem as benefits are usually equal to less than 50 percent of normal earnings, are temporary and an unemployed worker must accept an offer of a suitable job.

In addition to these general impacts, there are some impacts limited to particular groups of employees.

(1) Regular agricultural employees have little unemployment. As discussed above, the unemployment rate of this group would likely increase. Their total income would be decreased because the benefit payments would be considerably less than their regular earnings.

(2) Interstate migrants would most commonly qualify for unemployment benefits. They would tend to work for covered employers. They commonly have periods of unemployment. Also, it is particularly difficult for them to find employment during the agricultural off season. However, due to multi-state employment, they would also have a relatively high rate of benefit disqualification due to problems of varying state qualifying standards and employment credit transfer. Unemployment insurance would be an encouragement to stay in the migrant stream. However, they would probably become less mobile. Unemployment benefits, rather than unemployment, would be the alternative to the cost and uncertainty of moving to new employment in a different state.

(3) Many casual agricultural employees would be unlikely to qualify for benefits due to lack of sufficient covered employment even though employer contributions would have been made on their behalf. The contributions would be very low for these workers because of employer experience rating. Casual employment would be particularly subject to a decreasing

demand because of capital substitution for labor.

Unemployment Insurance Studies

Congressional consideration of unemployment insurance for agriculture has been hampered by lack of data concerning agricultural employment patterns and identification of likely consequences of various suggested programs for agricultural coverage. Studies of the feasibility of extending unemployment insurance to agriculture are now being conducted in Minnesota and Washington by their Bureaus of Employment Services. A cooperative university study is being conducted in twelve Northeastern States, Ohio and Florida. These studies will provide the basic data needed for a much more comprehensive evaluation of unemployment insurance than has been possible to date. These studies should provide a basis for agricultural representatives to assess and constructively influence legislation.